

**PUBLIC UTILITIES COMMISSION**

505 VAN NESS AVENUE
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November 15, 2016

Agenda ID #15353
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 16-03-014:

This is the proposed decision of Administrative Law Judge Peter V. Allen. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 15, 2016 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

/s/ KAREN V. CLOPTON

Karen V. Clopton, Chief
Administrative Law Judge

KVC: avs

Decision **PROPOSED DECISION OF ALJ ALLEN** (Mailed 11/15/2016)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902E) for Approval of Energy Storage and Energy Efficiency Contracts Arising from the Track IV Local Capacity Requirement All Source Request for Offers.

Application 16-03-014
(Filed March 30, 2016)

**PROPOSED DECISION APPROVING AN
ENERGY EFFICIENCY CONTRACT**

Summary

This decision approves an energy efficiency contract between San Diego Gas & Electric Company (SDG&E) and Willdan Energy Solutions (Willdan) resulting from SDG&E's Track IV Local Capacity Requirement All Source Request for Offers (Track IV All Source RFO), and related rate recovery for the costs of that contract. SDG&E has exercised its termination option for the Hecate Energy Bancroft LLC (Hecate) energy storage contract that was originally included in SDG&E's application, so the Hecate contract is not reviewed or approved. This proceeding is closed.

1. Background

San Diego Gas & Electric Company (SDG&E) filed its Application on March 30, 2016, requesting approval for one energy efficiency (EE) contract with Willdan Energy Solutions (Willdan) and one energy storage contract with Hecate Energy Bancroft LLC (Hecate), as a result of its Track IV Local Capacity Requirement All Source Request for Offers (Track IV All Source RFO).

A joint Response to the Application was filed by the Alliance for Retail Energy Markets (AReM) and the Direct Access Customer Coalition (DACC) on May 6, 2016, which sought clarification of the calculation of the net capacity cost for the Local Generation Charge applicable to the Hecate contract. (AReM/DACC Response at 1.)

A Protest to the Application was filed by the California Energy Storage Alliance (CESA) on May 6, 2016, which criticized certain terms of the Hecate contract, the criteria SDG&E used to evaluate energy storage contracts, the amount of storage SDG&E contracted for, and SDG&E's position linking its evaluation of bids to the Commission's approval of time-of-use periods proposed by SDG&E in a separate proceeding. (CESA Protest at 2-9.)

SDG&E filed a Reply to the Response and Protest on May 16, 2016. In its Reply, SDG&E indicated a willingness to clarify how it proposes to calculate applicable net capacity costs, as requested by AReM/DACC. (SDG&E Reply at 2.) SDG&E opposed the arguments raised by CESA's Protest. (*Id.* at 3-7.)

A Pre-Hearing Conference (PHC) was held on June 9, 2016. At the PHC, parties expressed interest in the possibility of resolving at least the issue raised by AReM/DACC, and possibly the issues raised by CESA, via a negotiated settlement process. The parties were accordingly provided time to engage in settlement negotiations.

A second PHC was held on August 12, 2016. At the second PHC, SDG&E indicated that a settlement had been reached with AReM/DACC. No settlement was reached between SDG&E and CESA; those parties agreed that no hearings were necessary, and the Administrative Law Judge (ALJ) established a briefing schedule.

On August 17, 2016, SDG&E moved for admission of its exhibits, and for leave to file certain information under seal.¹ That motion was granted via e-mail ruling on August 18, 2016.

On August 18, 2016, SDG&E and AReM/DACC filed a Joint Motion to enter into the record of this proceeding a Memorandum of Understanding that they had negotiated to clarify the issue raised by the Response of AReM/DACC relating to the calculation of the net capacity costs.² That motion was granted via e-mail ruling on August 18, 2016.

CESA filed its brief on September 9, 2016; SDG&E filed a reply brief on September 23, 2016.

2. Discussion

No party contested SDG&E's proposed energy efficiency contract with Willdan. That contract is approved. SDG&E has proposed to recover the costs of the Willdan contract as follows:

SDG&E intends to recover the costs through the PPP [Public Purpose Program] component consistent with other EE costs. The revenue requirement will be allocated among all customer classes based on authorized sales by customer class and then the customer class allocated revenues will be divided by the authorized sales by customer class. The proposed resulting per kilowatt hour rates by customer class will be charged to all customers, including all bundled service, DA and CCA customers, through the PPP rate component. The forecast of costs of the proposed EE (Willdan) contract will be trued-up to their assessed recorded costs through the Electric

¹ *Motion of San Diego Gas & Electric Company to Enter Testimony, Including Confidential Testimony.*

² *Joint Motion of San Diego Gas & Electric Company, Alliance for Retail Energy Markets and Direct Access Customer Coalition to Enter Document into the Record.*

Procurement Energy Efficiency Balancing Account (“EPEEBA”) and addressed in future PPP Advice Letters. (Joint Exhibit No.: SDGE/DACC/AReM-1 at 2.)

AReM/DACC states that they do not oppose this approach to cost recovery. (*Id.*) This approach is also consistent with the cost allocation approved by this Commission in Decision (D.) 15-11-041 for Southern California Edison (reits Local Capacity Requirements RFO for the Western Los Angeles Basin). Because the Willdan contract must be demonstrably incremental to the assumptions of the California Independent System Operator (CAISO) studies (D.14-03-004 at OP 6 and D.13-02-015 at OP 4), SDG&E’s cost recovery also needs to be incremental, and cannot come from previously authorized EE portfolio funds. Accordingly, SDG&E is authorized to include the costs of the Willdan contract in rates, as proposed in the Application.³

CESA raised several issues with SDG&E’s proposed Hecate energy storage contract; 1) SDG&E had not procured an adequate amount of storage, given the direction of the Commission in D.14-03-004; 2) SDG&E used improper methods of evaluating bids; 3) the provision in the Hecate contract that allowed SDG&E to terminate the contract was improper; and 4) SDG&E improperly conditioned acceptance of bids upon the Commission’s adoption of SDG&E’s proposed time-of-use periods in a different proceeding. As a remedy, CESA argued that the Commission should order SDG&E to reissue its RFO, or in the alternative, that SDG&E should withdraw and refile its Application.

³ While we are approving rate recovery for SDG&E here via the PPP, to the extent that EE resources are essentially taking the place of other electric procurement, the PPP may not be the most appropriate rate recovery mechanism, and the Commission may accordingly consider other rate recovery mechanisms for future EE contracts.

CESA's first two points are related, and the facts presented here are uncontested. SDG&E, in procuring energy storage to meet the Commission-established target of 25 megawatts (MW) that it must meet by the end of 2021, decided to procure less than that amount from this RFO. SDG&E took into consideration the possibility that the future cost of energy storage will be lower, and accordingly only procured a portion of the 25 MW target quantity. (CESA Brief at 4-5, SDG&E Reply Brief at 5-6.)

CESA argues that in evaluating the bids it received, SDG&E should not have taken into consideration the possibility of future price reductions, but should have evaluated all bids based on current conditions:

SDG&E must evaluate and procure energy storage resources based on their cost-effectiveness *when bids are submitted*, to meet the 25 MW minimum energy storage procurement requirement. Future costs of other potential and unknown projects should not be any part of the bid evaluation and contract negotiation processes. (CESA Brief at 5, emphasis in original.)

Under CESA's approach, SDG&E should have procured more energy storage from this RFO, and if enough bids were received that were cost-effective (evaluated at the time they were submitted), SDG&E should have procured the entire 25 MW from this RFO.

SDG&E points out that it does not need to meet the 25 MW target until the end of 2021, and that energy storage technology is expected to decline in price. SDG&E accordingly argues that it is reasonable to take these factors into consideration, and to defer some or all of its procurement of energy storage beyond this particular RFO. (SDG&E Reply Brief at 5-6.)

SDG&E is correct. By setting a deadline for SDG&E's required energy storage procurement at the end of 2021, the Commission provided SDG&E with

some flexibility in the timing of that procurement. While SDG&E should not defer procurement of all 25 MW to 2021, there also does not appear to be a good reason for them to procure all 25 MW now, in 2016.⁴ This Commission could have further constrained SDG&E's procurement of energy storage by setting incremental annual targets, for example, but D.14-03-004 did not do so.

Accordingly, SDG&E's decision to procure little or no energy storage capacity at this time is not inconsistent with the Commission's directives.

CESA's third point is that certain terms of the Hecate contract that allow for SDG&E to terminate that contract are unreasonable or improper. (CESA Brief at 6-7.) CESA's objection is that this effectively means that the capacity of the Hecate contract cannot really be counted towards SDG&E's procurement target. Since SDG&E has in fact terminated the Hecate contract, CESA's argument is essentially correct – SDG&E has not procured any energy storage as a result of the RFO. But as discussed above, this is not inconsistent with D.14-03-004.

Because the Hecate contract is no longer before us for approval, but has been terminated pursuant to its own terms, we choose not to review the specific terms of that contract here. The Commission may examine the terms of future contracts brought to it for approval to ensure that they are consistent with Commission decisions and policies.

CESA's fourth point is that SDG&E improperly conditioned acceptance of bids upon the Commission's adoption of an SDG&E position in another proceeding:

⁴ We reiterate here that the 25 MW is a minimum, not a maximum, procurement level. (See, D.14-03-004 at 100.)

SDG&E's RFO provided that certain bids would only be deemed conforming contingent upon the Commission approval of SDG&E's proposed time-of-use (TOU) periods in a separate unrelated Commission [proceeding] (A.15-04-012). (CESA Brief at 7.)

This issue was recently addressed by the Commission in D.16-09-007, which, consistent with CESA's position here, prohibited the use of this provision. SDG&E has stated that it will comply with this decision, and will not apply what it calls "the TOU contingency provision." (SDG&E Reply Brief at 7.) While SDG&E's inclusion of that provision may not have been reasonable, that provision has been removed and SDG&E will no longer seek to include that provision, consistent with D.16-09-007. There is no need to address that issue further here.

SDG&E does not need to reissue its RFO or to withdraw and refile its application, and we do not review or approve the Hecate contract.

3. Categorization and Need for Hearing

This proceeding was categorized as ratesetting; that categorization is confirmed. There was a preliminary determination that hearings would be necessary; because there were no disputed issues of material fact, but only questions of law and/or policy, the parties and the assigned ALJ determined that hearings were not necessary.

4. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on [____], and reply comments were filed on [____].

5. Assignment of Proceeding

Commission President Michael Picker is the assigned Commissioner and Peter V. Allen is the assigned ALJ in this proceeding.

Findings of Fact

1. The energy efficiency contract between SDG&E and Willdan is reasonable.
2. The ratemaking treatment proposed by SDG&E for the costs of the Willdan contract is consistent with D.15-11-041, and is reasonable.

Conclusions of Law

1. The energy efficiency contract between SDG&E and Willdan should be approved.
2. SDG&E should be granted rate recovery for the costs of the energy efficiency contract with Willdan.

O R D E R

IT IS ORDERED that:

1. The energy efficiency contract between San Diego Gas & Electric and Willdan Energy Solutions is approved.
2. San Diego Gas & Electric may recover in rates the costs of the Willdan Energy Solutions contract.
3. Application 16-03-014 is closed.

This order is effective today.

Dated _____, at San Francisco, California.